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Zarlenga sees automotive industry in the red zone

Indaiatuba, SP - Recent events in the country such as the truck stoppage and an uncertain movement of the exchange rate's behavior are worrying the executives. The current scenario makes it difficult to make short and long-term decisions. The margins are in the red zone and the reports to the headquarters account for losses in the future. So, the leader General Motors went ahead and warned: the company will raise the prices of its vehicles...

[More on pg. 4](#)

BMW will produce another SUV in Brazil

[More on pg. 8](#)



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Zarlenga sees automotive industry in the red zone

Leandro Alves | leandroalves@autodata.com.br

Indaiatuba, SP - Recent events in the country such as the truck stoppage and an uncertain movement of the exchange rate's behavior are worrying the executives. The current scenario makes it difficult to make short and long-term decisions. The margins are in the red zone and the reports to the headquarters account for losses in the future. So, the leader General Motors went ahead and warned: the company will raise the prices of its vehicles.



Disclosure

The dollar is the villain of the moment, but not just it. This is the assessment of the president of GM Mercosul, Carlos Zarlenga, who expects less sales in June: "we are going to repeat the 200 thousand units in May", according to him because of the great impact on the chain caused by truck stoppages. "In fact, considering May and June, the industry will not sell 60 thousand vehicles."

Regarding the exchange rate, the appreciation of the dollar, which went from R \$ 3.15 to R \$ 3.90 - referential rate presented by Zarlenga on the day of the interview - increased the vehicle by at least 30%. "When you consider all the items in a vehicle you discover that 50% of them have their prices linked to the dollar. Even national auto parts use imported components. It's a brutal impact on the costs that need to be passed on".

The reason for the increases in vehicle prices is also linked to the loans acquired from the headquarters. The yellow light is on because this is a snowball that every day of uncertainty becomes larger. "Simple. All the revenue of the automakers is in real (Brazilian currency). And the debt is in dollars. So, at that time the debt is 25% higher. This account is not only valid for the debt that companies already have. The impact is also projected for future debts, which are the investment plans".

About postponing investments, it is still too early to know if there will be a revision of the plans of the automakers, and GM specifically, in Brazil. Zarlenga has a good understanding of how to act: "It is wrong to make strategic decisions of this size right now. We have to wait at least three months to see which is the country model that will emerge after the elections. But we have a great expectation about what can happen."

Still macroeconomic fundamentals may deteriorate from now on undermining industry performance and throwing a bucket of cold water on projected growth and profitability in the beginning of 2018. GM reported losses in 2015 and 2016. Last year the company had balance in their accounts and worked to regain profitability this year. "I see the automotive industry in the red zone right now."

Zarlenga lists a number of uncertainties, such as the possible revision of the inflation target from 2.5% to 4% per year; the Selic rate increase at the next Copom meeting, “which will not be the last revision of the Selic this year”, and all the structural challenges that sometime this year will have to be discussed: “What will be the vision to review public expenses? What is the vision to contain the deficit? What is the vision of the pension reform and other important points for the country? I think these issues can only be attacked after the elections.”

So GM’s expectation for the domestic market is no longer the same as at the beginning of the year: “I think there is no guaranteed stability for the coming months. Growth expectation for the second half is lower than we had a few months ago. And with price increases. We are seeing an indecisive customer.”

GM has not revised its projections yet but will certainly be lower than the 2.7 million units announced at the AutoData Perspectives seminar in October last year. “I particularly believe in a market between 2.5 and 2.6 million units.”

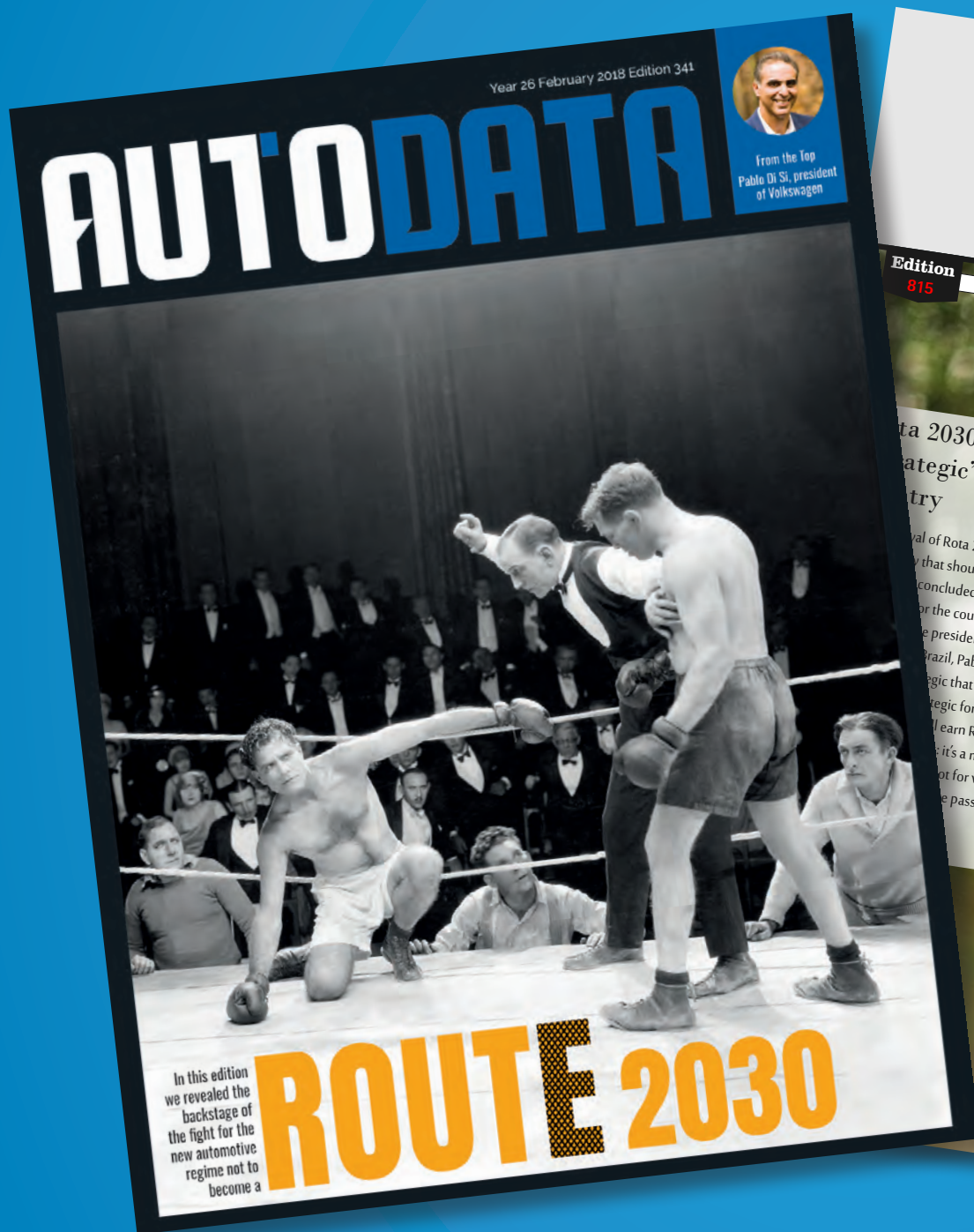
Rota 2030 - In this conversation with Carlos Zarlenga at the GM Proving Ground in Indaiatuba, SP, during the pre-presentation of the new Spin - the first of the twenty models announced by GM, which will be released later this month - a disappointment with what is about to come was evident [or even better, what is not about to come] with Rota 2030.

According to Zarlenga the work done during the negotiation phase of the pillars of Rota 2030 last year and what happened after that “showed that we can not trust this government”. He reported that many changes have occurred in the original plan because of the government’s lack of clarity in its objectives.

However, Zarlenga is optimistic that Rota 2030 can be announced before the elections: “The negotiation is concluded and at this moment our expectation is that there is an internal process to be announced. I want to be hopeful that they [from the government] will not step back on what has already been agreed... once again.”

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Disclosure

BMW will produce another SUV in Brazil

Bruno de Oliveira | bruno@autodata.com.br

BMW announced on Monday, 11, the production - at its factory in Araquari, SC - of the top-of-the-line version of the X3, SUV produced here since March. According to the manufacturer engine tests are being made and also tests in the assembly line. Production is expected to begin on June 18, with sales defined for the second half, still undefined.

With the local production of the xDrive X Line version, BMW adds four vehicles produced in Brazil. Apart from the two versions of the X3, the range of premium vehicles of the

manufacturer produced here the models X1, X4 and Series 3. The company also commercializes imported vehicles into the national market.

The new vehicle has a low index of nationalized components, incorporating local items in its production such as seats, tires and glass, auto parts whose logistics are considered complex and, therefore, opting for local production in partner companies installed here.

According to João Veloso, communications manager at BMW, developing local suppliers is even more complicated in the case of the new version of X3 because the vehicle has electronic systems sensitive to the autonomous direction: "Because of the low volume there are obstacles from local partners developments, many components are imported because the current demand does not justify their nationalization".

Data from Fenabrave show that up to May 4 thousand 320 BMW vehicles have been registered in the country, representing a market share of 0.46%. The best-selling model is the X1, which in the year-to-date had 1 thousand 167 units sold, the twenty-first best-selling vehicle in the period in the competitive SUV segment.

The production of the X3 version makes the company occupy the capacity of the Santa Catarina plant, especially after stopping manufacturing the X1 to export: from 2017 until January a contract that established the production in Brazil of a lot of 10 thousand units to meet the North American market was valid. There was another contract for another 2 thousand units, closed earlier this year.

According to the Metalworkers' Union of Araquari, the closure of the production of the X1 export type led to a reduction of personnel

because nearly two hundred employees had been hired due to extra demand. With the end of the intracompany contract few kept their jobs.

The factory in Santa Catarina operates on a shift with a workforce of about seven hundred employees. The arrival of the new version of X3 in the lines does not change the picture nor the journey, Veloso informed.

Still according to the union, the production of the factory stipulated for the year, a volume of approximately 15 thousand units, had to be revised downwards, something around 11 thousand units until December, although the SUV market has grown above the other segments in Brazil in the last years. The reason given for justifying the reduction is the wavering of the national market and uncertainties generated by the postponement of Rota 2030's approval, the new industrial policy for the sector, besides macroeconomic issues. The plant has the capacity to produce 32 thousand vehicles/year in three shifts.

The top-of-the-line version of the X3 model is equipped with the new M Performance 6-cylinder in-line engine, 2 thousand 998 cm³, with a power output of 360 hp, up to 54 hp more than the predecessor model. Both versions of the X3 have eight-speed automatic transmission.

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Imported vehicle sales increase 40%

Caio Bednarski | caio@autodata.com.br



Disclosure

São Paulo - Imported vehicle sales reached 14 thousand 935 units in the year, until May, against 10 thousand 668 in the same period last year, up 39.8% according to figures released by Abeifa on Tuesday, 12. In May, sales accounted 3 thousand 239 units, stable in relation to April and 26.6% higher than the same month last year, when 2 thousand 555 units were sold.

President José Luiz Gandini said in a statement that the sales performance in May could have been better if it wasn't for the truck drivers' stoppage, which affected several sectors of the Brazilian economy: "The movement in dealers was compromised. And sales traded in the third week of May were not completed for lack vehicles from May 21st".

Even with the dollar increase, which Abeifa has already signaled that its associates should pass on to customers, and the strike, the entity maintains the projection of selling 40 thousand units in the year.

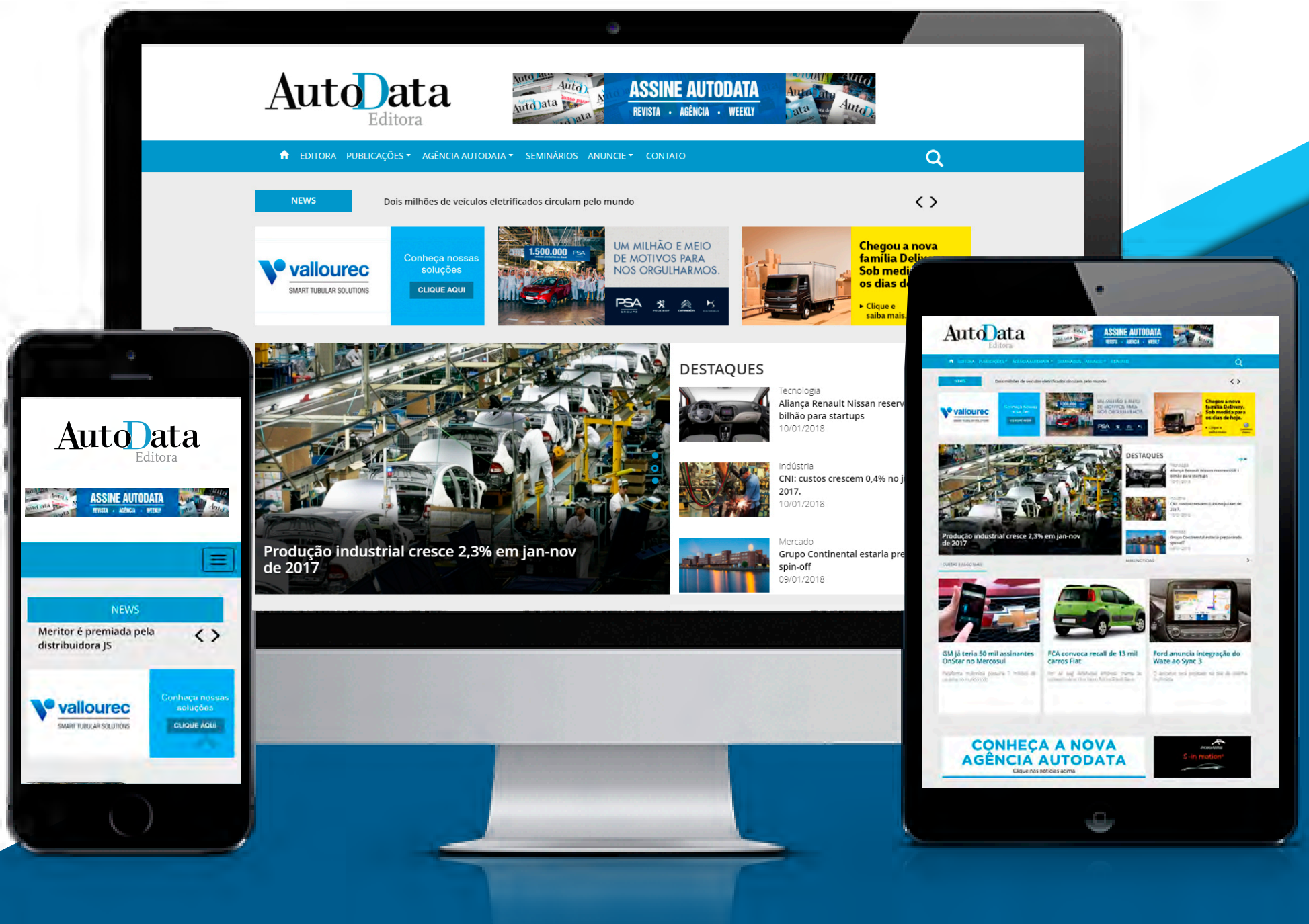
The best selling brands - In the year the importer that sold the most was Kia, 5 thousand 237 registered, increase of 65.1% over the same period last year, followed by Volvo, 2 thousand 112 units sold, expansion of 69, 3%.

Jac was in third place with 1 thousand 815 sales, increase of 29 %, Lifan was the fourth with 1 thousand 186 units traded, an increase of 25.4 %, and BMW was the fifth, with 1 thousand 102 seats, up 52.2%.

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Toyota works on its Brazilian SUV

André Barros | andrebarros@autodata.com.br

São Paulo - Now that it has filled a gap in its portfolio with the launch of Yaris, an intermediary model from Etios to Corolla, Toyota works on the next steps in Brazil. Aware that the sports utility segment is one of the most promising in the domestic market the company does not deny that the next investment package will include, among other things, the production of a national SUV.

The launch must not take long. Rafael Chang, president of Toyota of Brazil and Venezuela, said that the release of Rota 2030, the new automotive program, could accelerate talks with the headquarters. "We invested R\$ 1 billion in the Yaris and now we are discussing a new plan. [The disclosure of] Rota 2030 may give a more positive aspect. We can not be without this program".



Disclosure

Regarding the SUV, the executive did not want to go deeper: “We know we have to enter the segment”.

Currently, the automaker offers to Brazilian consumers the RAV4 and SW4 SUVs, both imported. The first comes from Japan and gained an entry-level version earlier this year, boosting sales: from January to April 1 thousand 300 cars were sold, an increase of over 500 units compared to the first four months of 2017, according to Chang.

From January to May, SUV sales grew 30% - the segment accounted for 24.2% of automobile and light commercial sales in the first five months of the year. The main competitors, if they do not already have compact SUVs in their portfolio, have already announced news for the short term.

But before that Toyota must have another situation to remedy. Although the company announced the opening of the third production shift in early May, in Sorocaba, SP, where it produces Etios and Yaris, the factory may find it difficult to meet demand for the models. In November the lines will have the capacity to produce 160 thousand units/year to supply Brazil and other markets in Latin America, which are also increasing.

According to Chang, 27% of production has export as destination. And, with the situation of exchange appreciation, exports are treated as fundamental subject to maintain the natural hedge of the operation.

The president of Toyota minimizes it. According to him, the possible impact of factors such as the elections can mess with market performance - Toyota plans to sell 200 thousand units and grow 5% in the market, which in its calculations will reach 2.5 million units, an increase of 11% over 2017.

So, in addition to the SUV, the investment plan that Chang discusses with the headquarters should also include expansion in productive units.

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Volkswagen inaugurates laboratory 4.0

AutoData Newsroom | redacao@autodata.com.br

São Paulo - On Thursday, 14, Volkswagen inaugurated a virtual reality laboratory at the Anchieta plant in São Bernardo do Campo, São Paulo, Brazil, which simulates production lines on computers. Through this technology the company can project new facilities, develop processes and vehicles prototypes.

Tests through virtual simulation minimizes process errors and reduces rework, said Celso Placeres, director of manufacturing engineering: "Immersion technology makes development feasible with a level of assertiveness never imagined before. All of this happens before the physical implementation. That way you can make faster decisions and improve costs."

Before having this laboratory VW performed similar tests in a space called the digital factory. According to the company, the simulations made avoided spendings over R\$

100 million in six large projects implemented in the last five years.

The simulation technology in a virtual environment is one of the pillars of Industry 4.0, a concept that has been adopted by the vehicle industry in Brazil. Announcements about the subject have been recurring this year. Pirelli, for example, connected its production line in Feira de Santana, BA, with the other factories outside Brazil, and Mercedes-Benz inaugurated a new digital line.

The concept of a digital factory is still a level that the industry around the world - and not just in Brazil - seeks to achieve. The Deloitte consulting firm presented in March showed that companies are in the early stages of the preparation process to take full advantage of Ind 4.0, which is characterized by the union of digital and physical technologies such as analysis, artificial intelligence, cognitive computing and IoT, the Internet of Things. **WE**